

Message Text

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INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20 AGR-20

AID-20 COME-00 EB-11 FRB-02 TRSE-00 XMB-07 OPIC-12

CIEP-02 LAB-06 SIL-01 OMB-01 INT-08 CU-04 SPM-01 IO-14

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FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 248

INFO AMCONSUL MEDAN

AMCONSUL SURABAYA

USIA WASHDC

CINCPAC

AMEMBASSY SINGAPORE

AMEMBASSY KUALA LUMPUR

AMEMBASSY BANGKOK

AMEMBASSY MANILA

C O N F I D E N T I A L SECTION 1 OF 2 JAKARTA 0344

CINCPAC FOR POLAD

EO 11652: GDS

TAGS: PFOR,EGEN,ID

SUBJECT: REPELITA II AND DRAFT STATE BUDGET FOR 1974-75

REFS: A. JAKARTA 0115 DTD JAN 10, 1973 B. JAKARTA 0086

1. INTRODUCTION AND SUMMARY: IN A THREE HOUR "DOUBLE HEADER" JANUARY 7, PRESIDENT SUHARTO SUBMITTED TO PARLIAMENT (DPR) OUTLINE FOR THE SECOND FIVE YEAR DEVELOPMENT PLAN (REPELITA II) AND DRAFT STATE BUDGET FOR 1974-75 WHICH BOTH TAKE EFFECT APRIL 1. MAGNITUDE OF REPELITA II, WHICH OVER FOUR TIMES THAT OF REPELITA I AND CONFIDENTIAL

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74/75 BUDGET WHICH ALMOST DOUBLE THAT OF PREVIOUS YEAR REFLECT GREATLY INCREASED REVENUE EXPECTATIONS, LARGELY BASED ON RISING OIL INCOME. AS EXPECTED, DEVELOPMENT PLAN AND BUDGET EMPHASIZE "SOCIAL JUSTICE"

AND MORE EQUITABLE DIVISION OF BURDEN FOR FINANCING DEVELOPMENT AND SHARING OF ITS FRUITS. THEY ARE THUS - AT LEAST ON PAPER - RESPONSIVE TO SOME CRITICISMS OF DEVELOPMENT TO DATE. MOST DRAMATIC ELEMENT OF BUDGET IS TWO-TO FOUR-FOLD INCREASE OF BASIC SALARIES CIVIL SERVANTS, MILITARY, TEACHERS AND MEDICAL PERSONNEL. DESPITE GENERALLY GOOD NEWS HE HAD TO GIVE, SUHARTO STRUCK RATHER UNCERTAIN NOTE AS HE CALLED FOR POLITICAL TRANQUILITY, CAUTIONED ABOUT COMMUNIST DANGER, AND EXPRESSED CONCERN OVER WORLD ECONOMIC SITUATION WHICH HE FELT COULD ULTIMATELY BE DETRIMENTAL TO INDONESIA. END SUMMARY

2. REPELITA II: SUHARTO STATED TARGETS ARE: A) AVAILABILITY OF SUFFICIENT HIGH QUALITY FOOD AND CLOTHING WHICH PEOPLE ABLE TO PURCHASE; B) HOUSING AND OTHER NEEDED FACILITIES; C) BETTER AND MORE EXTENSIVE INFRASTRUCTURE; D) BETTER AND MORE EQUITABLE SOCIAL WELFARE; AND E) MORE JOB OPPORTUNITIES. TO ACHIEVE THESE TARGETS PRESIDENT STATED THAT REPELITA II PROVIDES FOR "NATIONAL PRODUCTION" TO INCREASE AT RATE OF 7.5 PERCENT (PRESUMABLY ANNUALLY) WHICH, GIVEN 2.3 PERCENT ANNUAL POPULATION GROWTH, WOULD MEAN INCREASE IN PER CAPITA INCOME OF 5.2 PERCENT PER YEAR. PLAN CALLS FOR FOLLOWING ANNUAL INCREASES IN PRODUCTION; AGRICULTURAL 4.6 PERCENT; INDUSTRIAL 13 PERCENT; MINING 9 PERCENT; COMMUNICATIONS 10 PERCENT; ELECTRICITY 15 PERCENT; AND OTHERS 8 PERCENT.

3. AS ENUNCIATED BY SUHARTO, REPELITA II'S MAIN CHARACTERISTICS ARE: A) CONTINUATION AND ACCELERATION OF REPELITA I; B) MORE HARMONIOUS HANDLING OF ECONOMIC AND NON-ECONOMIC PROBLEMS, INCLUDING GREATER EFFORTS TO IMPROVE EMPLOYMENT OPPORTUNITIES, EDUCATIONAL FACILITIES, CULTURE (HE DREW BIGGEST LAUGH WHEN HE EXHORTED INDONESIANS TO ESCHEW USE OF FOREIGN WORDS SUCH AS "SHOPPING CENTER"); HOUSING, HEALTH, TRANSMIGRATION, CONFIDENTIAL

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SCIENCE AND RELIGION; C) INCREASED STRESS ON A MORE EVEN DISTRIBUTION OF FRUITS OF DEVELOPMENT; D) GREATER ATTENTION TO MANAGEMENT OF NATURAL RESOURCES; AND E) EFFORTS TO DEVELOP STATE APPARATUS (INCLUDING BETTER PAY AND EDUCATION OF CIVIL SERVANTS).

4. AGAINST THIS BACKGROUND PRESIDENT STATED THAT DURING FIVE YEARS OF REPELITA II DEVELOPMENT BUDGET WOULD TOTAL 4,858,8 BILLION RUPIAH OR MORE THAN FOUR TIMES THE 1,2B8.9 BILLION RUPIAH FOR REPELITA I. OF THIS MAJOR COMPONENTS WOULD INCLUDE (IN BILLIONS OF RUPIAH) AGRICULTURE (INCL. IRRIGATION), 1,101.6; REGIONAL AND RURAL DEVELOPMENT, 930.6; COMMUNICATIONS

AND TOURISM, 847.7; EDUCATION AND CULTURE, 525.8;
ELECTRIC POWER, 370.8; HEALTH AND FAMILY PLANNING, 192.1;
INDUSTRY AND MINING, 185.8; HOUSING, 104.9 AND LABOR
AND TRANSMIGRATION 69.4.

5. SUHARTO STATED THAT ROLE OF FOREIGN AID IN DEVELOPMENT
WOULD DECREASE SHARPLY DURING REPELITA II, NOTING THAT
DURING THE FIRST YEAR OF NEW PROGRAM (SEE BUDGET FIGURES
BELOW) DOMESTIC FUNDING OF DEVELOPMENT WOULD BE 65
PERCENT OF TOTAL, WHILE PAST YEAR FIGURE WOULD

RISE TO 82.3 PERCENT, FAR HIGHER THAN THE 23 PERCENT
DOMESTIC FINANCING OF THE FIRST YEAR OF REPELITA I.
PRESIDENT STATED THAT DURING REPELITA II ANNUAL
PAYMENTS ON FOREIGN BORROWOING WILL NOT EXCEED FIVE
PERCENT OF EXPORTS (WHICH ARE EXPECTED TO INCREASE
19 PERCENT PER YEAR). (COMMENT: HIGH FOREIGN DEBT BURDEN

RECENTLY ONE OF MANY STUDENT COMPLAINTS.)

6. ACCORDING TO SUHARTO, DURING REPELITA II EFFORTS
TO INCREASE PRODUCTION OF FOOD AND BASIC NECESSITIES
WOULD BE BALANCED WITH EFFORTS TO STABILIZE PRICES; LOW
COST HOUSING WOULD RECEIVE ATTENTION; INDUSTRIES TO
PROCESS RAW MATERIALS AND TO SERVICE AGRICULTURE,
CONSTRUCTION AND THE LIKE WOULD BE DEVELOPED AND SMALL
INDUSTRY WOULD RECEIVE SPECIAL ATTENTION. ALONG
WITH INCREASED PRODUCTION OF OIL AND NATURAL GAS (TO BEGIN
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DURING REPELITA II) EFFORTS WILL BE MADE TO PROCESS OTHER
MINERALS DOMESTICALLY, SUCH AS BAUXITE INTO ALUMINUM.

7. IN FIELD COMMUNICATIONS 14,500 KILOMETERS OF STATE
AND PROVINCIAL ROADS WILL BE REHABILITATED REDUCING PERCENT
OF THOSE UNFIT FROM 40 PERCENT TO 9 PERCENT. DOMESTIC
MERCHANT MARINE FLEET WILL BE INCREASED BY 450 DEAD
WEIGHT TONS AND OCEAN GOING FLEET BY 1.5 MILLION DWT.
NUMBER OF TELEPHONE SETS WILL BE INCREASED FROM 225 TO
403 THOUSAND, WHILE 500 NEW POST OFFICES AND 70 NEW
AIRPORTS WILL BE BUILT.

8. IN SOCIAL SECTOR, 632000 NEW SCHOOLS WILL BE BUILT,
A SCHOLARSHIP SYSTEM WILL BE INAUGURATED, PUBLIC
HEALTH CENTERS WILL BE STARTED AND FAMILY PLANNING
EFFORTS WILL BE INTENSIFIED IN, AND EXTENDED BEYOND,
JAVA AND BALI.

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R 091045Z JAN 74

FM AMEMBASSY JAKARTA

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AMEMBASSY KUALA LUMPUR

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9. STRESSING THE NEED FOR INCREASED SAVING FOR USE IN DEVELOPMENT, SUHARTO STATED TABENAS AND TASKA TIME DEPOSIT INSURANCE PROGRAMS WOULD BE CONTINUED OR INTENSIFIED. HE COMMENTED THAT WHILE IN REPELITA I MONETARY POLICY HAD BEEN DIRECTED PRIMARILY TO IMPLEMENT A PROGRAM OF ECONOMIC STABILIZATION, IN REPELITA II MONETARY POLICY WILL BE DIRECTED MORE TOWARDS ACCUMULATION OF PRIVATE SAVINGS, EXPANSION OF JOB OPPORTUNITIES, AND EQUITABLE DISTRIBUTION OF INCOME. (COMMENT: IN INCREASING SAVINGS GOI FACES PROBLEM THAT, IN VIEW OF SHARP INFLATION - 27 PERCENT IN 1973 - REAL INTERST RATES ARE NEGATIVE.)

10. PROVINCIAL DEVELOPMENT AID PROGRAM WILL BE STARTED IN REPELITA II TO HANDLE DISTRIBUTION OF DEVELOPMENT
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AID FOR PROVINCES. FUNDS FOR THIS PROGRAM IN FIRST YEAR OF REPELITA II WILL BE DOUBLE THAT OF PREVIOUS YEAR (SEE BUDGET FIGURES BELOW).

11. SUHARTO STATED THAT DURING REPELITA II THERE WOULD BE INTENSIFIED CONTROL OF IMPLEMENTATION OF REQUIREMENTS PRESCRIBED FOR FOREIGN INVESTORS, INCLUDING CAPITAL PARTICIPATION, MANPOWER, AND BUSINESS EXPANSION

(NO DETAILS).

12. 1974-75 STATE BUDGET. PRESIDENT STATED COMING YEAR'S BUDGET WOULD BE "BALANCED AND DYNAMIC" ONE OF 1,577.3 BILLION RUPIAH - 82.9 PERCENT ABOVE THE PRECEDING YEAR - DIVIDED INTO ROUTINE BUDGET OF 961.6 BILLION (UP 85 PERCENT) AND DEVELOPMENT BUDGET OF 615.7 BILLION (UP ABOUT 79 PERCENT). ON INCOME SIDE DOMESTIC REVENUES ARE ESTIMATED AT 1,363.4 BILLION RUPIAH, OF WHICH 867.4 BILLION FROM DIRECT TAXES (INCLUDING 653.7 BILLION FROM OIL CORPORATION TAXES) AND 466.4 BILLION FROM INDIRECT TAXES (INCLUDING 165.7 BILLION CUSTOMS REVENUES), PLUS 29.6 BILLION NON-TAX RECEIPTS. 213.9 BILLION DEVELOPMENT REVENUES MADE UP OF 89.1 BILLION PROGRAM AND 124.8 BILLION PROJECT AID.

13. MAJOR DISBURSEMENTS UNDER 961.6 BILLION ROUTINE BUDGET ARE ESTIMATED AS: 405.1 BILLION FOR SALARIES AND PERSONNEL EXPENSES (WHICH INCLUDES EFFECTIVE APRIL 1 A 400 PERCENT INCREASE IN BASIC SALARIES OF TEACHERS, JUDGES AND NURSES AND A 200 PERCENT INCREASE FOR OTHER CIVIL SERVANTS AND MILITARY); 174.7 BILLION FOR MATERIAL; 168.4 BILLION FOR SUBSIDIES TO THE REGIONS; 82.1 BILLION FOR DEBT REPAYMENT AND INTEREST AND 131.3 BILLION FOR MISCELLANEOUS.

14. 615.7 BILLION DEVELOPMENT BUDGET BROKEN DOWN INTO 490.9 BILLION FOR RUPIAH PAYMENTS AND 124.8 BILLION PROJECT AID. MAJOR ITEMS INCLUDE A) 127 BILLION FOR REGIONAL DEVELOPMENT; B) 96 BILLION RUPIAH FOR AGRICULTURE AND IRRIGATION (INCLUDING EXPANSION OF BIMAS FOR RICE AND SECONDARY COOPERATIVES, REFORESTATION AND IRRIGATION; C) 71 BILLION FOR COMMUNICATIONS AND TOURISM; D) 53.5 BILLION FOR EDUCATION
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(CONCENTRATED ON IMPROVING OVERALL QUALITY AND IMPROVING OPPORTUNITIES FOR 7-12 YEAR OLDS); E) 18 BILLION FOR DEFENSE AND SECURITY; F) 11 BILLION FOR SCIENTIFIC DEVELOPMENT; G) 17 BILLION FOR HEALTH AND FAMILY PLANNING; H) 9 BILLION FOR THE INDUSTRIAL AND MINING SECTOR; I) 6 BILLION FOR MANPOWER AND TRANSMIGRATION (TO AFFECT 30,000 HEADS OF FAMILIES); J) 3.6 BILLION FOR TRADE AND COOPERATIVE; K) 2 BILLION FOR INFORMATION; L) 1.6 BILLION FOR RELIGION (INCLUDING CONSTRUCTION OF PLACES OF WORSHIP AND ESTABLISHMENT OF MARRIAGE COUNSELING BUREAU).

15. IN DESCRIBING BUDGET SUHARTO MADE REFERENCE TO SUBSTANTIAL CONTRIBUTION MADE BY OIL REVENUES DUE TO INCREASED PRODUCTION AND HIGHER PRICES, AND STATED THAT EFFORTS WOULD BE MADE TO INCREASE TAX COLLECTIONS WITH GREATER BURDEN ON RICH, TO INCREASE

EXPORTS AND TO STIMULATE DOMESTIC INDUSTRY THROUGH
VARIOUS TAX ADVANTAGES.

16. THROUGHOUT PRESENTATION PRESIDENT STRESSED NEED
FOR POLITICAL STABILITY AS PREREQUISITE TO ECONOMIC
DEVELOPMENT DURING PRESENT UNCERTAIN WORLD SITUATION.
HE PRAISED ROLE OF FREE PRESS AND TWO-WAY COMMUNICATION
BUT EMPHASIZED NEED FOR RESPONSIBILITY TO AVOID
"UNNECESSARY TENSIONS" (IN SEEMING CONTRAST TO
INTRODUCTORY REMARKS OF ACTING SPEAKER WHO WELCOMED
STUDENT CRITICISM). AT ONE POINT SUHARTO COMMENTED THAT
NATION MUST BE ALERT TO COMMUNIST DANGER SINCE, WHILE
PKI HAS CEASED TO FUNCTION, "ITS CADRES DO EXIST AND
ARE SURELY STILL ENGAGED IN UNDERGROUND ACTIVITIES."
AT CONCLUSION OF SPEECH PRESIDENT MADE PLEA FOR
SELF-CONTROL, HARD WORK, HONESTY, AND MODEST LIFE
STYLE IN GOVERNMENT AND LEADING CIRCLES (REF B)
SO THAT REPELITA II COULD SUCCEED (WITHOUT
THREATENING ANY PUNITIVE ACTIONS).

17. COMMENT: AS EXPECTED, REPELITA II AND 74/75
BUDGET GIVE MUCH GREATER EMPHASIS TO "SOCIAL JUSTICE"
AND THUS ARE RESPONSIVE AT LEAST IN PART TO
CRITICISMS THAT REPELITA I HAS INCREASED GAP BETWEEN
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RICH AND POOR BY OVER-CONCENTRATING ON QUANTITATIVE
DEVELOPMENT. WHILE PRESIDENT WAS OBVIOUSLY PLEASED TO
ANNOUNCE MUCH LARGER BUDGETS (EVEN DISCOUNTED FOR
INFLATION) AND DECREASING ROLE OF FOREIGN PARTICIPATION
IN DEVELOPMENT, THERE WAS A HESITANT AND SOMEWHAT UNSURE
TONE TO MUCH THAT HE SAID. HIS CALL FOR GREATER POLITICAL
TRANQUILITY, MENTION OF THE COMMUNIST THREAT, AND
NEED FOR INCREASED EMPHASIS ON DEFENSE AND SECURITY,
AND REFERENCE TO THE WORLD ECONOMIC SITUATION "WHICH,
GIVEN THE CAUSE TO CONTINUE WILL DEFINITELY HAVE A
DISASTROUS EFFECT ON US ALSO" APPEARED TO REFLECT CONCERN
THAT UNEXPECTED AND UNWELCOME DEVELOPMENTS AT HOME OR
ABROAD MIGHT ADVERSELY AFFECT FUTURE OF INDONESIA'S
DEVELOPMENT.

18. PRESS REACTION: EDITORIAL COMMENT IN INDEPENDENT
PRESS STRESSED THAT GOOD INTENTIONS EXPRESSED IN NEW
BUDGET MESSAGE AND FIVE YEAR PLAN WOULD COME TO NOTHING
UNLESS EFFECTIVE MEASURES TAKEN TO ELIMINATE CORRUPTION
AND CREDIT MANIPULATION. INDONESIAN RAYA EXPRESSED
CONCERN THAT RAMPANT INFLATION (NINE BASIC COMMODITY
INDEX MOVED UP FIVE PERCENTAGE POINTS LAST WEEK) WOULD
NULLIFY SUPPOSED RISE IN WAGES, ETC. AND REDUCE PLANNING
PROJECTIONS TO CHAOS. SINAR HARAPAN SUGGESTED THAT
FUTURE PRESENTATIONS BY PRESIDENT WOULD BE MORE
INSPIRATIONAL IF THEY WERE LESS THAN THREE HOURS IN LENGTH

AND FOCUSED ON KEY ELEMENTS IN DEVELOPMENT STRATEGY.

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